

THIS REPORT CONTAINS ASSESSMENTS OF COMMODITY AND TRADE ISSUES MADE BY USDA STAFF AND NOT NECESSARILY STATEMENTS OF OFFICIAL U.S. GOVERNMENT POLICY

Required Report - public distribution

Date: 5/13/2016

GAIN Report Number: 16003

Guatemala

Coffee Annual

Partial Recovery from the Rust Outbreak

Approved By:

Todd Drennan, Agricultural Counselor

Prepared By:

Karla Tay, Agricultural Specialist

Report Highlights:

Despite the coffee outbreak back in 2011-2013, which reduced 25 percent of the record-high production of 3.8 million (60 Kg bag) achieved in MY 2011/2012, Guatemala's coffee production has moderately recovered. Coffee production in marketing year (MY) 2015/2016 (October 2015-September 2016) is estimated to reach 3.4 million (60 Kg) bags, 6 percent above last year's harvest and 3 percent above our previous estimate (3.3 million – 60 Kg bag). Exports for MY 2015/2016 are estimated at 3.1 million bags (60 Kg), a modest recovery from MY 2014/2015 (3.0 million bags – 60 Kg), and 3 percent above previous estimate.

Executive Summary:

Guatemalan farmers have partially recovered from the “coffee leaf rust” outbreak (2011-2013). The three year timeframe required for new planted coffee trees to full blossom is completed and 96 percent of the most affected trees are being harvested. Full recovery to record-high production of 3.8 million (60 Kg bag) in MY 2011/2012 continues to be a constant challenge given price constraints and increasing production costs (mainly manual labor and chemical controls to combat rust). During MY 2014/2015 exports to the U.S. represented 40 percent of total exports, followed by Japan (17 percent), Canada (11 percent), and European countries.

For MY2015/2016, a 6 percent increase in production is estimated at 3.4 million (60 Kg) bags. Coffee production on MY2016/2017 is expected to slightly drop (3.3 million bags – 60 Kg) considering predictions of La Niña phenomenon, accompanied by high humidity and potential losses due to the widespread presence of coffee rust. Dry conditions for the past two production cycles have helped control coffee rust and helped to significantly recover yields, from 0.8 MT/Ha (2012-2014) to 1.1 MT/Ha (2015/2016).

Commodities:

Coffee, Green

Production:

Guatemala’s coffee production area increased to 305,000 hectares after the coffee rust outbreak, 10 percent above planted area over the past 35 years. Arabica’s Caturra and Catuai varieties account for the majority of Guatemala’s coffee varieties and only 2 percent is planted with Robusta in the lowlands. Guatemala’s coffee production and exporting strategy continues to be focused on the specialty market and washed Arabica. The 2011-2013 coffee rust outbreak put pressure on farmers to consider rust resistant varieties such as those from Robusta, but the fear of losing leadership market share in the Specialty Coffee market, and pest risks for Robusta at higher altitudes, have kept Guatemala as an Arabica producing country. Coffee replanting and renovation is a medium-term process that also requires significant investment.

The extended two-year El Niño phenomenon has contributed to reinforcing the need for timely pruning, improved crop techniques, and pest control. Trained farmers understand that the crop requires investment if intended for profit purposes, which was not necessarily understood prior to the rust outbreak, where coffee growing wild was fairly common amongst small farmers. Though the coffee rust forced farmers in the lowlands to replant with Robusta and Catimor hybrids, major coffee production in Guatemala continues centered around sourcing washed Arabica coffee.

Total production has not fully recovered from production during the MY 2011/2012 record high of 3.8 million (60 Kg) bags, but efficiency on yield terms has. The national average yield in MY 2015/2016

was 1.1 MT/Ha, similar to that recorded in MY 2011/2012. Post estimated that yields would recover 3 percent annually since the rust outbreak, but average yields have exceeded expectations, and in MY 2015/2016 average yield increased 18 percent compared to MY 2014/2015 (0.9 MT/Ha).

Table 1

Coffee, Green Market Begin Year Guatemala	2014/2015		2015/2016		2016/2017	
	Oct 2014		Oct 2015		Oct 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	305	0	305	0	305
Area Harvested	0	295	0	300	0	305
Bearing Trees	0	1172	0	1244	0	1252
Non-Bearing Trees	0	130	0	58	0	50
Total Tree Population	0	1302	0	1302	0	1302
Beginning Stocks	225	225	155	90	0	81
Arabica Production	3350	3135	3300	3260	0	3304
Robusta Production	15	58	15	171	0	69
Other Production	0	0	0	0	0	0
Total Production	3365	3193	3315	3431	0	3373
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	175	184	175	190	0	200
Total Imports	175	184	175	190	0	200
Total Supply	3765	3602	3645	3711	0	3654
Bean Exports	3050	3012	3000	3117	0	3063
Rst-Grnd Exp.	0	0	0	3	0	3
Soluble Exports	20	0	20	0	0	0
Total Exports	3070	3012	3020	3120	0	3066
Rst,Ground Dom. Consum	340	300	340	305	0	310
Soluble Dom. Cons.	200	200	200	205	0	210
Domestic Consumption	540	500	540	510	0	520
Ending Stocks	155	90	85	81	0	68
Total Distribution	3765	3602	3645	3711	0	3654

(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)

The coffee production sector in Guatemala is composed of approximately 90,000 small and medium size farmers, with less than 10 hectares of land. Constant capacity building training is required to address production challenges. The National Coffee Association (ANACAFE) has established demonstration plots in the seven different producing regions to carry out technology transfer, but the lack of a stable public agricultural extension system significantly jeopardizes the potential of Guatemalan farmers to increase yields and income.

With the support of the U.S. International Agency for Development (USAID), ANACAFE and Coffee Cooperatives implemented the Rural Value Chains Project in 2012. The program supported 7,732 coffee farmers belonging to 114 organizations, who have sustainably increased incomes. Coffee production cost is mainly divided between manual labor (70 percent) and inputs (30 percent). Roughly 66 percent of the manual labor cost goes for picking, followed by soil management, weed control and shade management. After the coffee rust outbreak, farmers have become more aware of the impact of climate and good agricultural practices.

The price range for Guatemalan coffee in the international market is \$118-\$130 per 100 Kg. The USAID Rural Value Chains Project has provided farmers with an opportunity to trade coffee as a

specialty item, increasing the average sales price from \$110 (per 100 Kg) in MY 2012/2013 to \$126 in MY 2014/2015.

Coffee production, in general, generates close to 150,000 full-time and 300,000 part-time jobs in Guatemala. Coffee is one of Guatemala's major contributors to the agricultural GDP, representing \$663 million in MY 2014/2015. Coffee continues to be an important source of income for small holders. Few agricultural options are available for coffee substitution at high altitudes, where 70 percent of the production is concentrated. Coffee is an interesting agroforestry model. In addition, coffee is an important economic option for rural families in Guatemala, and it reduces soil erosion compared to other crops grown on slopes such as corn.

Consumption:

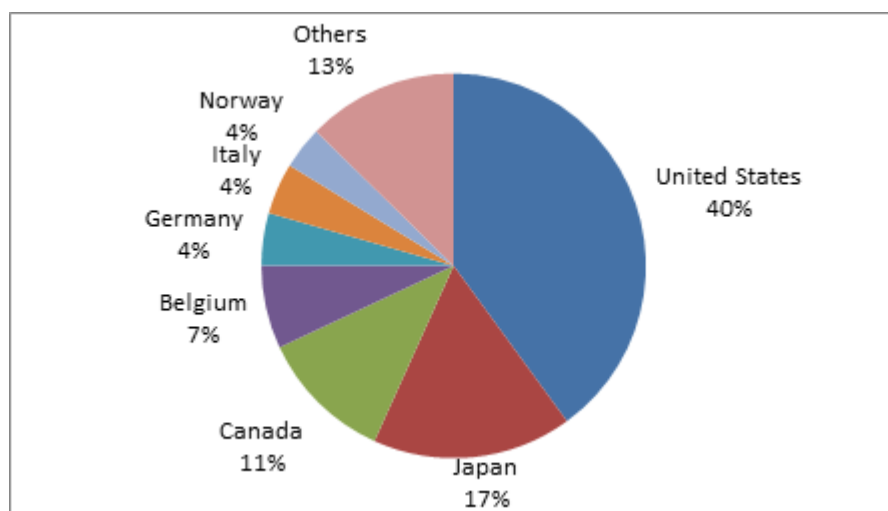
Coffee consumption in Guatemala has been revised down 6 percent by Post for MY 2015/2016, as it only grew 2 percent from previous marketing year. Coffee per capita consumption in Guatemala continues on the upswing reaching 1.9 Kg/year. Specialty coffee in Guatemala is highly appreciated and consumption by college students is experiencing an upward trend. Major coffee shops in Guatemala include: El Injerto, Café Barista Starbucks, Café Saúl, &Café, McCafé, Café Gitane, Café San Martin, and El Cafetalito. Consumers are demanding high quality coffee, blends and new tastes, combined with the social experience of coffee shops that also provide internet for students and business meetings. Coffee shops, in addition, offer daily meals, from sandwiches to gourmet food.

Domestic consumption of coffee in Guatemala is the historical result of a combination of factors such as international prices and competitiveness. Guatemala has been a coffee producing country since the late 1800's. By the late 1980's hard and strictly hard coffee represented roughly 20 percent of the Guatemalan coffee production and, given its higher quality, all was exported. Guatemalan consumers did not have access to high quality coffee until fairly recently around the year 2000. Given the price fluctuations and market crisis, combined with the rust outbreak back in the 1970's, close to 80 percent of the lowland coffee was forced to move to the highlands. The lowland coffee was quickly replaced by more profitable crops such as sugar. Coffee produced at higher altitudes and lower temperatures results in harder grains, with higher quality due to its slower maturation. In the late 90's, Guatemalan coffee offer had dramatically shifted to at least 80 percent of hard and strictly hard quality, not only for export purposes but also for domestic consumption.

Trade:

Green Coffee exports for MY 2015/2016 are estimated at 3.1 million bags (60 Kg), a slight increase from MY 2014/2015 (3.0 million bags – 60 Kg), post-rust outbreak. The roasted ground coffee market is a new niche recently under exploration. Guatemala's main export markets have been the United States, Japan, Canada, Belgium, and Germany. In MY 2014/2015, exports to the U.S. represented 40 percent of total exports, followed by Japan (17 percent), Canada (11 percent), and European countries as shown in Figure 1.

Fig. 1
MY2014/2015 Export Markets for Guatemalan Green Coffee



Source: Global Trade Atlas, 2016

Table 2 shows volumes of green coffee exported in the MY 2013/2014 and MY 2014/2015 harvests. U.S. continues to have the major share (40 percent). Export volumes per destination and average prices per month for MY 2014/2015 can be obtained at:

<http://anacafe.org/glifos/index.php?title=02EYP:Exportaciones-por-destino-2015>

Table 2

Guatemala Green Coffee Exports MY 2013/2014 – MY 2014/2015		
Export Trade Matrix		
Country	Guatemala	
	Coffee, Green	60 Kg bags
	MY	(1000's)
	2013/2014	2014/2015
United States	1374	1204
Japan	425	506
Canada	328	339
Belgium	224	210
Germany	171	133
Italy	141	130
Other EU Countries	185	247
Total for Others*	1474	1565
Others not Listed	301	243
Grand Total	3149	3012

Source: Global Trade Atlas

Imports have increased to 184,000 bags (60 Kg), made up of mostly soluble coffee and mainly sourced from Mexico. Nescafé launched its Dolce Gusto stylish machine with easy-to-use pods delicious flavours that include: Cappuccino, Macchiato, Chococino, Cappuccino Ice, Espresso, Lungo, and Classico Decaffeinato. The gourmet coffee concept at home has received good acceptance in an already evolved market for coffee.

Stocks:

Ending stocks are forecast at 68,000 (60 Kg) bags for MY 2016/2017, a 19 percent drop from the MY 2015/2016 estimate of 81,000 (60 Kg) bags. Stocks correspond to inventories at the individual exporting facilities, privately owned by companies and cooperatives.

Policy:

Legislative Decree 19-69 created the Coffee Law in Guatemala in 1969, and Presidential Decree 13-70 regulates it. ANACAFE is responsible for advising the Government of Guatemala on coffee matters, and establishing coffee policy for production and commercialization purposes. ANACAFE is mandated to provide technical services that include research, trials, demonstration, assistance, and outreach. Overall, the Coffee Association must promote economic and agricultural activities related to coffee, including crop diversification. Other services that ANACAFE must provide: cupping, arbitrage, registration, statistics, warehouses, and other auxiliary services.

In addition, ANACAFE must propose financial solutions for the milling and commercialization of coffee, mainly attending the small producers. ANACAFE is also responsible for issuing the export and shipment permits. ANACAFE sets minimum prices and supervises overall sales activities, including quality. ANACAFE is financed through an export tax, which imposes a Q0.25 fee for every hundred-weight of green bean exported (equivalent to \$0.08/60 Kg bag). The export tax is collected through the Government of Guatemala Customs Authority, and transferred via Bank of Guatemala to ANACAFE.

Legislative Decree 37-72 and 74-72 provide amendments to the Coffee Law, the first establishing tax exemption to buy fertilizers and equipment and the second defining a 2-year term for the President and Vice president of ANACAFE.

Legislative Decree 12-2013 expands the Guatemalan Coffee Trust Fund (created in 2001 and later modified in 2005), for another 10-year period (which ends in 2026), to support measures addressing the coffee rust outbreak. The trust fund provides for: a) non reimbursable funds for assistance to coffee production for inputs and productive processes, b) low interest loans for coffee producers, set on 2 percent annual rate for small ones and 3 percent for medium and big producers, and c) to increase public transfers up to \$100 million. The Ministry of Agriculture is responsible for the supervision of the trust fund, and the Rural Development Bank (BANRURAL) is tasked with its administration.

Marketing:

ANACAFE and the Federation of Guatemalan Coffee Cooperatives (FEDECOCAGUA) provide technical assistance (to farmers and associations interested in export certs) to support the following certifications: Rainforest Alliance, GLOBAL GAP, Utz Certified Good Inside, Organic Coffee

(IFOAM), Café Bird Friendly, Fair Trade, Private Standards for Nespresso, Naturaland, Bio Suisse, and Demeter.

ANACAFE has established a Coffee School, where baristas, chefs, and any person, group, or association can learn how to prepare gourmet coffees. ANACAFE is also responsible for Guatemala's participation at the Cup of Coffee auction. ANACAFE publishes its "Technical Bulletins", selective coffee magazine, with latest news related to the coffee sector, from technical information up to health studies associated with drinking coffee; please visit http://anacafe.org/glifos/index.php?title=08PUBLI:Boletines_tecnicos.

ANACAFE has pioneered a marketing effort to define Guatemala's coffee producing regions based on coffee characteristics, defined by geography and climate, reflecting in an exclusive cup profile. Eight distinctive regions of strictly hard bean quality coffees have been identified, which are promoted as Guatemala's regional coffees, as shown in Fig. 2.

Fig. 2
Guatemala's Regional Coffees



Source: ANACAFE

FEDECOCAGUA supports 20,000 coffee producers, mainly small, has also designed a special marketing strategy to increase market prices and opportunities for its associates, which represent 15 percent of Guatemalan exports. FEDECOCAGUA is the main institution that deals directly with small coffee producers (1.32 Ha per farmer), and through its 148 cooperatives, has provided small farmers with direct commercialization options.

Aside of providing technical and financial support to its members, FEDECOCAGUA provides milling, storage, classification, the federation exports directly for its members. At present, the qualities that FEDECOCAGUA offers to its associates through its dry mill and cupping are: Fancy SHB

Cuchumatán, Genuine Antigua Pastoral (GAP), SHB-EP La Delicia, and FSHB-EP Gourmet. FEDECOCAGUA also offers exporting under direct branding of its associates. Recently, with USAID support, FEDECOCAGUA launched its roasted coffee to expand market opportunities for small producers.

Production, Supply and Demand Data Statistics:

Coffee, Green Market Begin Year Guatemala	2014/2015		2015/2016		2016/2017	
	Oct 2014		Oct 2015		Oct 2016	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	0	305	0	305	0	305
Area Harvested	0	295	0	300	0	305
Bearing Trees	0	1172	0	1244	0	1252
Non-Bearing Trees	0	130	0	58	0	50
Total Tree Population	0	1302	0	1302	0	1302
Beginning Stocks	225	225	155	90	0	81
Arabica Production	3350	3135	3300	3260	0	3304
Robusta Production	15	58	15	171	0	69
Other Production	0	0	0	0	0	0
Total Production	3365	3193	3315	3431	0	3373
Bean Imports	0	0	0	0	0	0
Roast & Ground Imports	0	0	0	0	0	0
Soluble Imports	175	184	175	190	0	200
Total Imports	175	184	175	190	0	200
Total Supply	3765	3602	3645	3711	0	3654
Bean Exports	3050	3012	3000	3117	0	3063
Rst-Grnd Exp.	0	0	0	3	0	3
Soluble Exports	20	0	20	0	0	0
Total Exports	3070	3012	3020	3120	0	3066
Rst,Ground Dom. Consum	340	300	340	305	0	310
Soluble Dom. Cons.	200	200	200	205	0	210
Domestic Consumption	540	500	540	510	0	520
Ending Stocks	155	90	85	81	0	68
Total Distribution	3765	3602	3645	3711	0	3654

(1000 HA) ,(MILLION TREES) ,(1000 60 KG BAGS)